



CURRENCY

Committee on Financial Services

Michael G. Oxley, Chairman

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Oxley, Baker to Introduce Terrorism Insurance Bill

House Financial Services Chairman Michael G. Oxley and Capital Markets Subcommittee Chairman Richard H. Baker are joined by several cosponsors today in introducing a bill to address the availability and affordability of terrorism insurance in the wake of the Sept. 11 attacks while protecting taxpayers, policyholders and insurers.

Statement

**Chairman Michael G. Oxley
Terrorism Risk Protection Act**

"I'm proud to be here with my colleagues today as we tackle the challenge of commercial insurance for terrorism with the introduction of the Terrorism Risk Protection Act (TARPA).

"To address this challenge, we need to act quickly and on a bipartisan basis. I'm confident we'll be able to meet this challenge, as we have met the many others that the war against terrorism has presented to us.

"We have worked hard over the past days and weeks to avoid to the greatest extent possible any economic disruption that could result from a lack of available, affordable terrorism insurance. The potential is there for significant disruption. We address this problem with a thorough and rational approach.

"This is not an insurance industry problem or a policy holder problem---it's a national economic problem that demands a national solution. Affordable, available terrorism insurance is necessary for the economy to function efficiently.

"We want to assist policyholders - and the industry - and the economy as a whole in a reasoned way while protecting the taxpayer from endless financial risk. I think we have achieved that middle ground.

"We have a short-term solution and a longer-term plan. One of the most important concepts in this package is repayment of any federal assistance. Those who have benefited will repay it over time, and we think that's fair and reasonable. The taxpayers should not be forever on the hook to solve this problem.

"Short-term, there is a federal risk-sharing loan program that's triggered by a \$100 million event or if any of the smaller companies takes a significant loss. The federal government would provide liquidity to the industry by immediately picking up 90 percent of the claims, with 10 percent retained by the companies. This loan would be repaid back over time through assessments across the industry.

"If a large event were to occur, greater than \$20 billion in claims, the same 90-10 split would apply, the industry would be assessed, and losses would also be recouped through surcharges on policyholders. The risk-sharing loan program will sunset after a short time.

"To address longer-term issues, insurers will be encouraged to set aside reserves in case they are needed to pay terrorism claims. These reserves will grow while our short-term solution is in place.

"With our plan, we have the advantages of risk-sharing, without the bureaucracy of a national pool. Competition is maintained, and the government will be supporting a healthy private insurance market for commercial terrorism coverage.

"There is no perfect solution to this very difficult problem - but we will make sure that the taxpayers' money is protected and that there is no 'bailout.' As we move through the legislative process, we will adjust our plan to ensure that the solution to the insurance problem is as market-based as possible."

A summary of the Terrorism Risk Protection Act follows:

Summary

The Terrorism Risk Protection Act is the most pro-taxpayer, pro-consumer proposal, with a significant commercial industry/policyholder stake, and relatively little regulation required (most of which would only kick in if an event occurred). This proposal is relatively low-maintenance for the government and will sunset without a private sector addiction to federal subsidies.

For insurers, the bill protects individual companies more than any other proposal. For policyholders, since insurers will have an incentive to write terrorism coverage, it greatly increases the affordability and availability of coverage. Taxpayers and the federal

treasury are protected from unlimited financial risk. They are not on the hook for the ultimate costs. Every dollar of federal assistance will be repaid. If no event occurs, no bureaucracy is created, and the legislation sunsets after a brief period of time -- except for the reserve mechanism, which encourages companies to save to pay for potential terrorism claims.

Key Elements

- " Requires all federal taxpayer costs/assistance to be paid back.
- " Includes limited liability reforms to protect taxpayer funds.
- " Models risk-sharing plan on existing state insurance programs.
- " Allows insurers to keep long-term terrorism loss reserves without tax penalties.
- " Assesses first \$20 billion in losses back to commercial insurers over time.
- " Sets trigger level at \$100 million, with lower threshold for smaller insurance companies.
- " Provides 90% federal share with 10% individual company retention.
- " Bases repayment timing flexibility on economic conditions.
- " Establishes uniform definition of terrorism.
- " Authorizes one-year program with optional extension for up to two additional years.
- " Recoups subsequent losses through commercial policyholder surcharges.

Advantages

- " No taxpayer bailout - any federal funds used to boost liquidity are paid back by commercial industry/policyholders (the primary beneficiaries of any proposal) over time.
- " Greatly increases capacity of insurers to offer terrorism coverage.
- " Companies get first dollar protection. Without this early protection, few companies can afford their individual risk and won't offer significant or affordable coverage.
- " Protects small and large policyholders, and small and large insurers, while retaining incentives for risk management and efficient claims processing.
- " Significant exposure for commercial insurers and significant incentives for long-term private market solutions.

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